

*When it obtained its independence from France in 1960, Chad was the poorest of French colonies on that continent. Now, that country may well have the fastest growing economy in the world. How can that be? Read on. A former U. S. ambassador to Chad explains. — Ed.*

[http://www.unc.edu/depts/diplomat/archives\\_roll/2003\\_10-12/norland\\_chad/norland\\_chad.html](http://www.unc.edu/depts/diplomat/archives_roll/2003_10-12/norland_chad/norland_chad.html)

# The Chad-Cameroon Pipeline Project

PROSPECTS &  
PROBLEMS  
by Donald R. Norland

## The Problem

"Like the ancient questors, we economists have tried to find the precious object (sic) the key that would enable the poor tropics to become rich. We thought we had found the elixir many different times. The precious objects we offered ranged from foreign aid to investment in machines, from fostering education to controlling population growth, from giving loans conditional on reforms to giving debt relief conditional on reforms. None has delivered as promised. The poor countries that we treated with these remedies failed to achieve the growth we expected. The region we treated most intensively, sub-Saharan Africa, failed to grow at all."

*The Elusive Quest for Growth*, by William Easterly, p. xi.

"A growing divide between the haves and the have-nots has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day. Despite repeated promises of poverty reduction made over the last decade of the twentieth century, the actual number of people living in poverty has actually increased by almost 100 million...In Africa the high aspirations following... independence have been largely unfulfilled. Instead, the continent plunges deeper into misery, as incomes fall and standards of living decline... Even countries that have abandoned African socialism, managed to install reasonably honest governments, balanced their budgets and kept inflation down find that they simply cannot attract private investors. Without this investment, they cannot have sustainable growth."

*Globalization and Its Discontents*, by Joseph E. Stiglitz, p. 8.

"At different stages of my Foreign Service career, USAID has tried a series of different 'development' strategies. Certainly we have not yet stumbled across a magic formula for development that works worldwide. We have tried regional development, community development, small is beautiful, agricultural-led development, export-led development, Title IX activities that revolve around cooperatives and community-centered projects, integrated rural development, food for peace, food for development, water for peace, reimbursable development, legal and democratic training—a virtual encyclopedia of development jargon. But one wonders whether our successive strategies were designed more to sustain USAID than they were to achieve sustainable development."

"Deja Vu All Over Again" by Joseph C. Guardino, p. 42, September 2002, *Foreign Service Journal*.

These observations by former officials of the World Bank, the IMF and USAID describe the political and economic context in which discussions began on the Chad/Cameroon Petroleum Development and Pipeline Project in the early 1990s. A sense of disillusionment dominated development professionals and the general public alike as they witnessed the steady economic decline of most African countries and found growing pessimism about prospects for progress.

This pessimism was all the more dispiriting since it followed decades of effort, reflected in the billions of dollars in loans, grants and other assistance, to put those countries on a sound economic glide path after acquiring independence. Despite these commitments, there was little in the way of results. What gains had been made were largely incremental, limited to a few selected sectors of the economy. Overall, the sad fact was that the vast majority of African countries were suffering declining economic growth and a deteriorating quality of life.

### Origins of the Chad Project

Because private sector investment projects fared little better than publicly funded programs, the parties interested in the Chad Project concluded that something had to change. Traditional (bilateral) investment agreements between the host country and private companies were no longer feasible or acceptable.

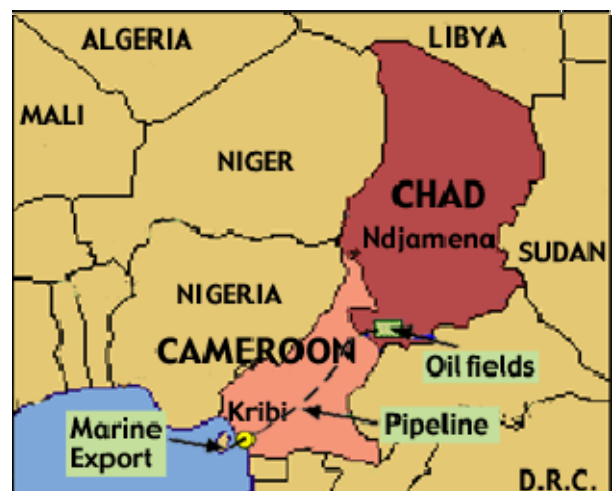
The reasons, first and foremost, originated in the realization that all resources—whether grants of Official Development Assistance (i.e. ODA, known as foreign aid), or loans for structural adjustment or revenues from private sector investments—were being largely squandered. The most notorious "poster boys" whose excesses aroused public anger and resentment were Mobutu Seso Seko of Zaire and Sani Abacha of Nigeria who openly robbed billions from their national treasuries. Anger assumed the proportions of a tidal wave of criticism, gradually engulfing all parties, beginning with the corrupt individuals and governments but quickly extending to the World Bank and to giant multilateral companies.

A further compelling reason for change in traditional practices was the emergence of coalitions of militant anti-globalization, pro-environment and pro-debt forgiveness activists. Rather than simply lobbying for a voice in economic policy discussions, as in the past, these coalitions took to the streets. Instead of waving flags, the demonstrators assaulted their "adversaries," e.g., delegates to annual World Bank meetings, and confronted the police with the aim of disrupting proceedings.

### The Country

That Chad would be the country to serve as the laboratory for developing and testing a system to replace the old discredited way of managing oil resources was a combination of luck and timing. Chad had little or nothing to recommend it. Landlocked, deeply divided by culture, history, religion and language, it's the fifth largest country in Africa, twice the size of Texas. Its three climatic zones reinforce its diversities and emphasize its weaknesses.

The northernmost region, bordering on Libya, is a virtual



vacuum marked by mountain ranges and largely empty deserts, dominated by several hundred thousand lighter-skinned Moslem, Arabic-speaking nomads.

By contrast, Chad's more densely-populated middle region, the sahel, is flat, well-watered and able to sustain farmers and cattle ranchers. The people are predominantly Arab-speaking and Islamic.

The great majority of Chad's 8.2 million people inhabit the south; they are black, French-speaking and non-Moslem, i.e., either Christian or followers of indigenous religions. The French influence is the natural legacy of French conquest which, beginning in the south of the country, resulted in some 75 years of colonial rule which ended (formally) in August 1960 when Chad acquired its independence.

In reality, French influence remains deeply entrenched, especially in Chad's business circles, its education system and political institutions. It was in no small measure a reaction to continued French influence that accounted for the emergence of northern-based rebellions in the mid-1960s—rebellions which, in lesser measure, continue to trouble the country today.

Sustained by their respective ethnic supporters (and in the north by Libya) this north-south rivalry underlies Chad's endemic political instability—an instability that became one of the standard arguments used by critics in their opposition to the Chad/Cameroon oil project.

The counter argument was that the project was Chad's only hope. As the fifth poorest country in the world, its people had little hope of escaping poverty and misery. Because of their deprived state, there arose the conviction that the Chadian people and government might be sufficiently eager to end 30 years of civil war and rebellion to make the concessions required to facilitate the exploitation of its oil resources. Chadians were well aware that there was no other marketable resource they could rely on. It was the oil project—a possible oil bonanza—or continued economic decline.

### The Project

Once the Chad government agreed to certain concessions and the World Bank pledged its support, a consortium of oil companies signaled its agreement to invest \$3.4 billion in the project. The lead company was ExxonMobil, with forty per cent of the capital; Petronas, the Malaysian state oil company, with thirty-five per cent and Chevron with twenty-five per cent. As the operating company, it was ExxonMobil's responsibility to construct the 650-mile pipeline that carries the oil from 300 oil fields of southern Chad to the Atlantic port of Kribi in Cameroon.

Thus emerged the largest private investment project of its time in Africa.

The situation faced by negotiators when they met in the early 1990s to draft the agreements was fraught with problems. It took years of negotiations before the "Chad/Cameroon Petroleum Development and Pipeline Project" emerged. Reflecting the determination—indeed the obligation—of all parties to find a new model of cooperation, it's not surprising that it took negotiators nearly a decade to reach a consensus.

Among the primary innovations agreed upon was the creation of a unique trilateral public-private partnership: the World Bank, the consortium of oil companies and the government of Chad.

It is new in several important respects. Thus, for example, while the World Bank's financial participation was in the form of loans totaling only three per cent of the \$3.7 billion in capital, it agreed to be a full partner in this private, profit-making investment. In addition, the Bank assumed another key role, i.e., to "mitigate the risk" of the Consortium's \$3.4 billion investment.

The Bank's participation was indispensable for other reasons. The consortium asked the Bank to take the lead in inducing the government of Chad to make the essential concession, namely sovereignty over its oil revenues. After initially resisting the role, the Bank agreed (privately) to inform Chadian authorities that without that concession it would not participate in the Project. The consortium similarly made known to the Chadians that it would not invest in the Project without World Bank participation.

## Challenges

To appreciate the scope of the problems, it should be added that some observers regarded—and still regard—the contrasts among the three partners to be insurmountable. Whether viewed in terms of power, influence, resources or objectives, they could hardly be more different.

To illustrate the challenges, one only has to recall that ExxonMobil is one of the world's largest and wealthiest multinational oil companies. Relying on its power and wealth, it had a fearsome reputation in some quarters for its alleged willingness to run roughshod over obstacles it might encounter. In the Chad project it would have a poor, weak unstable and undeveloped partner that would test its patience.

For the World Bank Group, the world's most powerful financial institution, assumption of its role as "moral guarantor" of a private sector investment required an unprecedented degree of responsibility and engagement, specifically in "capacity building," i.e., training Chadians in the full range of functions necessary to manage the country's oil resources. The consensus among observers is that never had the Bank agreed to assume a comparable commitment to human resource development.

As for Chad, the third partner, it could offer little more than its oil resources. Its infrastructure was basic, with only 300 kilometers of paved roads, no railroad, poor to non-existent telecommunications services, sporadic supplies of electricity and a population with less than fifty per cent literacy.

A second basic challenge of the project was to reconcile the partners' contrasting objectives. For the Consortium, the project was a for-profit investment in Chad's oil resources that, like others, would be judged by the only standard that mattered, profits and dividends to stockholders.

On the other hand, for the government of Chad and the World Bank, the aim of the project was quite different, namely an economic development/poverty reduction project.

Finally, there was the challenge to convince the host government of Chad of its responsibility to address the problem of corruption. The underlying issue was seen to be one of governance. The Chadian National Assembly would have to address it by passing legislation that would significantly mitigate—if not eliminate—corruption. In fact, of course, corruption is ubiquitous and pervasive—and not by any means confined to developing countries. It's also well shielded by the fundamental principle of international law embodied in the word sovereignty. For decades, indeed centuries, anti-corruption efforts have foundered despite laws, threats, and exhortations, including efforts by international financial institutions and bilateral donors alike.

## Introducing Transparency

Reduced to its essentials, introducing transparency and accountability in the handling of oil revenues required a multi-stage process involving three distinct steps:

- First, the amount of oil drilled, shipped and sold would have to be monitored and made public by representatives of both the oil companies and the host government;
- second, revenues resulting from oil sales would have to be deposited in a financial entity, e.g. offshore, well beyond the reach or control of any single official or group of the producing country;
- third, an independent monitoring group would have to be established with authority to release funds from the offshore account solely for development purposes and in accordance with the economic planning of relevant government ministries.

## The Stakes

The incentives to overcome these fundamental challenges, can be understood by reviewing the high stakes the partners have in its success.

For the government and people of Chad, the Project is calculated to bring in revenues over the next twenty-five years that will double its current gross domestic product. An estimated one billion barrels of oil will be drilled, raised and shipped from the wells in southern Chad to the off-loading facility on the Atlantic at Kribi (near Douala). Production is expected to reach a maximum of 225,000 barrels per day.

When the Project was approved in 2000, revenue per barrel was conservatively estimated at \$15.25, with revenues for Chad calculated as \$100 million per year or \$2.5 billion over the life of the project. As noted earlier, according to the Economist Intelligence Unit report of August 2003, the price of oil had almost doubled to \$26.79 per barrel. That same report (page 8) predicts that, as a consequence, Chad's real GDP growth will reach the astronomical figure of forty per cent in 2004, "making Chad the fastest growing country in the world."

This extraordinary economic growth is a direct result of the impact of a) the investment in building the pipeline, especially the hiring of some 11,000 laborers (eighty-six per cent of the work force was Chadian and Cameroonian) who earned about \$11 million per quarter, b) the purchase of local goods and services totaling \$340 million by mid-2002, averaging \$92 million per quarter, and c) the broader economic spinoff from these two figures.

The stake of the consortium of oil companies is not just profit from the \$3.4 billion in capital, it's also a test of its experiment of partnership with the World Bank. Meanwhile, the World Bank has gambled heavily on its ability (through training) to empower Chadians to monitor and manage the country's oil resources and thereby achieve its overarching raison d'être, namely poverty reduction, in which the Chad project is a leading test case.

As for the government of Chad, the project offers the best—possibly only—hope of emerging from its desperate condition of poverty and underdevelopment. Chad also stands to gain the prestige and further private investment that could come if the Project succeeds and becomes a model for other extractive industries and programs. For example, the conditions that Chad has (at least in principle) agreed to in the Chad project closely resemble the qualifications for receiving receive assistance under the new U.S. Millennium Challenge Account. In addition, the project provides an example of the very kind of

partnerships called for by the "New Partnership for African Development" (NEPAD) and by a number of African leaders.

### The Law

In the final analysis, the success of the project—the stakes and potential benefits—hinges on success in introducing transparency. And the key to transparency is Chad's concession of sovereignty—a concession no country had previously been willing to make. That key is the agreement of the Government of Chad to pass a law creating the critical oversight committee, which it did in January 1999. The committee's formal title is: "College de Controle et de Surveillance des Ressources Petrolieres du Tchad (CCSRP)" which is known in English as the Revenue Management Oversight Committee or RMOC. This is the legislation that distinguishes the Chad Project from all previous oil projects by offering the hope that oil revenues will be transformed into economic development projects.

The language of the law is: "Direct income [dividends and royalties] shall be deposited in an offshore escrow account" which "shall be allocated primarily to...public health and social affairs, education, infrastructure, rural development (agriculture and livestock), environment and water resources." (Articles 3 and 7 of Act No. 001/PR/99 dated January 1999.)

In view of the RMOC's key role, and the widespread cynicism regarding its ability to curb and control corruption, let's examine its membership, mandate, authority, and staffing.

### Membership

The RMOC consists of nine Chadians. Four are from Chadian government offices: the National Director of the regional bank (BEAC), the Director of the "Treasury and Public Accounting" (comparable to the General Accounting Office), a member of the Supreme Court, and a member of the National Assembly. The five RMOC members represent (1) Chadian civil society and NGOs, (2) the religious community, (3) trade unions, (4) human rights associations and NGOs interested in development, and an opposition party member in the National Assembly.

### Mandate

The best source of an authoritative summary of the Committee's mandate is its first report, dated March 26, 2003, describing RMC activities for the year 2002. The report (National Assembly 022/CCSRP/2003) was authored by the two members of the Committee who are also members of the National Assembly.

The report recalls the two key aspects of the Committee's mandate. First, "to verify that the actions of the special [off shore revenue] accounts are in conformity with the [national] budget law," and second, "to authorize and monitor the expenditures of the special [off shore] accounts and the actual destination of the funds."

The law elaborates on the RMC mandate by noting that it is expected to ensure that the "appropriate amount of oil revenues has been credited to the Government bank accounts in accordance with the convention signed with the petroleum Consortium;" second, to make certain that budget allocations are "in accordance with" decrees that govern revenue management; third, to guide procurement decisions by seeing that expenditures are "transparent and awarded to the lowest evaluated bidders," and fourth, to

guarantee that the "Fund for Future Generations" (ten per cent of revenues to be set aside for future needs) is managed in accordance with "best international practices."

A decree implementing the Revenue Management law states that the RMC is to participate fully in the preparation and implementation of the Chad's national budget, specifically in the process of "budgeting and allocating oil revenues."

### Authority

As evidence of its central role, one of the RMC's first tasks was to determine which "ministerial priorities" were to be funded by the "remainder" of the \$25 million oil bonus, the payment by the oil Consortium to the government of Chad in the summer of 2000 as a reward for signing the project agreement.

This task assumed special importance because of the notoriety (and severe criticism) generated as a result of the Chadian Government's decision to use \$4.5 million of the bonus to purchase military equipment (reportedly two helicopters.) This "diversion" of the bonus has been repeatedly cited by skeptics of the Project as evidence that the Chadian Government can't be trusted—that the Project will result in the usual misuse of funds that characterizes such projects.

In response, the government justified its action on two grounds: first, that the signing bonus was not clearly covered by the terms of agreements on oil revenues, and second, that the government faced an armed rebellion in the north and needed to replace two helicopters destroyed by the rebels.

Nevertheless, the World Bank reprimanded Chadian authorities for what it felt was a violation of the spirit, if not the letter, of project agreements. It also exacted a pledge that Chad would never use any oil revenues for non-economic development purposes—and that it would provide a detailed accounting of the use of the remaining \$20.5 million. Hence the accounting on pages 3-6 of the 2002 rapport d'activités.

### RMC Committee Staff

An important question for critics is whether RMC staff can be recruited with the ability to implement the grave responsibilities of channeling oil resources into development projects. To the amazement of most observers, the RMC is already operational with staff in place. It consists of a bilingual administrative assistant, an accountant and "technical staff" including two high level Chadians. Two more local staff are expected to be hired, including a procurement expert familiar with budget preparation and execution. Interestingly, a "public finance specialist" has also been assigned by the U.S. Department of Treasury with authority to monitor revenue flows.

### Prime Minister and President of Chad Meet the RMC

The "report of activities in 2002" also provides important insights into the RMC's political influence and status. They emerge from its separate meetings with the President and the prime minister of Chad. At their August 30, 2002, meeting with the prime minister, the latter "insisted on the fact that this institution [the Revenue Management Committee] should operate with full independence." The report emphasized the prime minister's view that "the question of the independence of the Committee is fundamental: neither the government nor the World Bank should seek to control or to influence the

Committee. The Committee should not depend on anyone, least of all the 'economic credit office of the petroleum era.'"

The Committee's meeting with President Deby on September 19, 2002, is significant as a measure of high level political support. After congratulating the RMC for its work, the president "recalled that the Committee is a creation of the government and that it is a source of pride for Chad because there exists nowhere else a comparable entity for monitoring and management of petroleum resources. (Emphasis added.) He [the president] emphasized that the management of the remainder of the signing bonus will be a test of how well the Committee is prepared to assume the management of future oil resources."

The president recognized the importance of publicizing the RMC's work by asking its members "to work transparently and in collaboration with the Government, which is charged with establishing investment projects."

### The Test

Thanks to the scrutiny to which the RMC has been subjected, an apparent consensus has emerged that the structure, composition, mandate and authority of the RMC constitute a sound foundation for doing the difficult job assigned to it. In brief, the RMC is empowered to participate fully in the process of budgeting and allocating oil revenues.

The overarching question now, to quote U.S. Ambassador to Chad Christopher Goldthwaite, is "...whether the law will be adhered to."

July 15, 2003, marks a major step in testing the new arrangements for managing petroleum revenues. It was on that date that oil began to flow from wells in southern Chad through the newly constructed 650 mile pipeline across Cameroon to the port of Kribi on the Atlantic coast.

However, the idea—indeed the requirement embedded in legislation—that the nation's resources are to be invested in economic development projects is so contrary to the experience of recent decades that there remains widespread skepticism and disbelief. One prominent voice reflecting this skepticism is that of Professor Terry Karl of Stanford University whose academic research, focused on Latin American countries, but including Asian and African examples, leads her to conclude that oil revenues inevitably lead to a decline in GDP per capita and of a nation's economic growth. Her reasoning stems from what is perceived to be the unstoppable diversion of a nation's work force to employment in oil projects—at the expense of agriculture and traditional productive endeavors. Professor Karl goes so far as to affirm that oil-producing countries actually become poorer, that oil revenues are tainted.

In so stating, she overlooks the fact that no combination of resources—whether ODA, World Bank loans or regional bank support—has succeeded in raising African countries out of poverty despite fifty years of unremitting effort.

On balance, scrutiny of the project by non-governmental organizations, particularly those concerned with the environment, human rights and health, results in benefit to all the parties. It also makes this project one of the most extensively studied, painstakingly planned and intensively monitored of any investment.

## Tensions

There remain threats to the success of the project due to the potential clash of corporate and development cultures and inherent tensions that could erupt at any time.

Thus within the World Bank there are still concerns about the desirability of making a commitment to providing "political risk insurance" for a private oil consortium of profit-making companies. Or the dangers of changing its traditional policy, outlined in its charter (the Bretton Woods agreement of 1945) that prohibited it from interfering in a country's internal affairs.

The significance of the Bank's change of policy is evident in the comment of the U.S. representative at the World Bank Board session of June 6, 2000, approving the project. He described it as "a defining moment in World Bank history...[The project] provides a unique opportunity for the IFC [International Finance Corporation] and Bank to play a significant complementary role in reducing poverty in one of Africa's poorest regions."

## Chad's Commitment

One of the most frequently asked questions is: How strong is Chad's commitment to the project? For how long will the Chadian Government accept an infringement of its sovereignty? Given the endemic instability, can it be expected to abide by constraints agreed to when it was poverty stricken?

The answers will be determined by the willingness and resolve of Chadians to see beyond the traditions and practices that remain deeply rooted in Chadian history and society—practices difficult to overcome in even the most advanced societies (witness Enron, WorldCom and other companies.) Several basic considerations condition Chad's decisions and future options and its responses to such questions.

As the fifth poorest country in the world, Chad has every incentive to see that the project succeeds. Oil revenues offer the sole prospect of transcending the country's debilitating and divisive regional, religious, racial and ethnic tensions. The project's success would be the best inducement to further private investment in other resources and sectors of the economy. The project, in effect, offers the long term promise of emerging from isolation and into the global economic mainstream.

## Prospects for Replication

As the circumstances and events described above make clear, the conditions that resulted in the Chad Project will not be easily replicated. The best recommendation for the project will be its success. Meanwhile, the World Bank is willing to consider serving as a catalyst in bringing the Chad model to investors in other oil producing states. Indeed, the Bank has been reliably reported to be in discussions with the Government of Sao Tome and Principe about establishing a transparent mechanism for managing that country's promising oil revenues.

The delays in implementing the Millennium Challenge Account and in attracting private investment under NEPAD illustrate the difficulties of introducing new ideas.

## The Benefits

While the success (or failure) of the Chad Project can be fully assessed only after resources have begun to flow to the benefit of the people of Chad, the project has already had a highly favorable impact on the country and the economy.

First, the project has captured the attention of numerous NGOs that monitor developments and help Chad to emerge from its isolation and obscurity. These activities also constitute the essence of scrutiny which in turn is the key to transparency.

Second, the project has, through the World Bank's deep commitment to "capacity building," accelerated education programs and policy reforms and adding momentum to privatization of such sectors as telecommunications and energy.

Third, the project has resulted in exponential growth in the country's GDP, increasing from 0.8 per cent in 1999 to 8.9 per cent in 2002, and anticipating an increase to 10.6 per cent in 2002. The Economist Intelligence Unit's August 2003 report predicts "real GDP growth will...make Chad the fastest growing country in the world." (Page 8, August 2003 EIU Country report.) Equally notable is the sharp rise in U.S. exports to Chad, from \$10.8 million in 2000 to \$137 million in 2001, increases largely reflecting the sale of U.S. oil drilling equipment.

Fourth, thanks to the project the country has made giant strides toward entering the global economic mainstream and raising its profile and potential for foreign direct investment.

Fifth, although Chad's oil production will be relatively insignificant in terms of global demand or U.S. needs, it contributes marginally to the desired diminution of U.S. reliance on Middle East sources and to U.S. energy security.

Sixth, the project has revived hope among the Chadian people, a critical psychological factor in helping the country maintain its role as a secular barrier against the region's militant Islamists and becoming a recruiting ground for terrorists. These clearly identifiable benefits are direct benefits of the Chad project. The key tests are still to come, but these achievements justify the hope that the project will improve life for the people of Chad while, at the same time, offering the world a paradigm for responsible resource management leading to the elusive goal of economic growth and development.